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S E C R E T SECTION 01 OF 03 ISLAMABAD 003693

SENSITIVE
SIPDIS

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TAGS: [ECON](#) [ETRD](#) [EAID](#) [EFIN](#) [ENGY](#) [EPET](#) [ELTN](#) [PK](#)
SUBJECT: PAKISTAN PETROLEUM RESERVES DANGEROUSLY LOW

Classified by: Ambassador for reasons 1.4 (b) and (d)

¶1. (S) Summary. Pakistan may be facing a crude oil shortage in the near term but the extent of this shortfall cannot be confirmed. Based on numerous conversations with government officials and businesses operating in Pakistan, Post has compiled information regarding a circular debt problem with domestic energy companies and refineries emanating from the Government of Pakistan's (GOP) reduced foreign reserves. While a best case scenario would be only a minor lag in refinery production, another worst case scenario forecasts a severe shortfall in December which may impact Pakistan's overall industrial output, domestic utilization and resupply efforts to ISAF forces in Afghanistan. Post will continue to monitor the situation carefully and take any precautionary efforts possible to ensure Embassy functionality. End Summary.

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RESERVES LOW FOR CRUDE OIL- BUT UNCLEAR HOW LOW

¶2. (S) Post has contacted numerous officials in both the government and private sector to piece together the following information regarding alleged shortfalls in Pakistan's overall strategic oil reserves. Due to a very uncharacteristic "closed mouth policy" Pakistani officials are reluctant to discuss the specifics of the fuel shortfall and Post has not been able to verify the overall severity of the problem but will continue to monitor the situation over the coming days. In a best case scenario, Pakistan will receive sufficient supplies of crude oil during the week of November 24 to allow domestic refineries to meet demand with only a minor lag in their production flows. In a worst case scenario, some government officials who monitor the country's reserve levels think that Pakistan could be facing a severe shortfall of crude oil during the first two weeks of December which could result in rationing and serious petroleum shortages.

¶3. (S) The Oil Companies Advisory Committee (OCAC), which represents all of Pakistan's oil companies, requires government approval for oil imports. In the past few months, the government has restricted crude and refined product imports in an attempt to preserve its foreign exchange reserves which stood at USD 3.337 billion on November 18. Post was able to obtain a copy of the OCAC "daily stock position" for November 20 which provides that as of that date, Pakistan's refineries had a combined stock of 8 days of petroleum, 11 days of furnace oil, 16 days of jet fuel and 19 days each of high speed diesel and light speed diesel. Post has not been able to obtain another copy of this highly restricted document since November 20 and is unable to verify how much the combined refinery stocks have increased or depleted since then.

14. (S) Ministry of Petroleum and Natural Resources Deputy Director Jabar (protect source) confirmed to EconOff on November 19 that due to Pakistan's deteriorating credit rating, which was reduced to CCC by S&P on November 14, the government is facing difficulties buying crude oil. According to Jabar, Pakistan is facing severe problems clearing letters of credit, and the crude reserves are "significantly less than" the 10-day reserve requirement. The GOP reduced the strategic reserve requirement from 21 to 10 days in October in order to boost foreign exchange reserves (reftel).

15. (S) Ministry of Petroleum and Natural Resources Acting Secretary G. A. Sabri confirmed to EconOff on November 24 that Pakistan is experiencing difficulties with letters of credit. He said that the problem was taking up much of their time and attention as well as costing money, but he denied that the problem had resulted in a shortfall. Sabri also confirmed that a vessel carrying crude oil had been turned around from the Port of Karachi due to "administrative reasons" but would not provide any further details on this specific issue. He requested USG intervention to improve Pakistan's credit rating, believing that this would solve the LOC issue.

6 (S) Salman Farruqi, Deputy Planning Commission, claimed that there is no fuel shortage but would not provide specific comments in a meeting with EconCounselor. Farruqi did provide that due to the pending agreement with the International Monetary Fund, the government was unable to make timely fuel purchases but quickly noted that payments were now being made to companies. (Note: Pakistan will receive USD 3 billion from the IMF on or about November 28 if the IMF executive board approves the agreement on November 24. End Note.)

17. (C) Kaleem Ahmed Sadique, Managing Director of Pakistan State Oil
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(PSO), the largest oil company in the country told EconOff on November 24 that circular debt is preventing PSO from making its payments to refineries. Sadique said that refineries are running at 45 percent capacity because of normal to low crude reserves. According to him, independent power producers, the Water and Power Development Authority (WAPDA) and Pakistan International Airlines (PIA) together owe PSO PKR 76 billion (USD 950 million).

18. (C) EconCounselor spoke with Haroun Khawaja, CEO of AES Pakistan who confirmed that they are concerned about their ability to continue purchasing from Pakistan State Oil due to the drop in strategic reserves. Khawaja stated that no Letter of Credit for private Pakistani banks are being accepted due to the overall credit rating and all orders for crude oil on the international market must be paid for in advance. In a separate conversation with EconOff, AES's Chief Financial Officer Nazir Chanda said that AES was receiving PKR 100 to 200 million per week (USD 1.25 million to 2.5 million), which was not enough to cover AES fuel purchases for their 2 plants. CEO Haroon Khawaja later told EconCounselor that the AES plants had 3 hours of furnace oil supply on hand and was arranging several deliveries from PSO per day.

IMPACT ON EMBASSY OPERATIONS

19. (C) The U.S. Mission uses diesel fuel for its emergency generators and many of its official vehicles, and gasoline for its other official vehicles. Embassy Islamabad and its constituent posts in Karachi, Peshawar, and Lahore have been topping off their fuel tanks in anticipation of tightened fuel supplies. Embassy Islamabad has fuel reserves on the Chancery compound that should last for five days' worth of routine consumption. That reserve could last less than five days if Islamabad were to have particularly severe periods of electrical load shedding, which would significantly increase the use of the Embassy's backup generators for offices and residences.

110. (SBU) The Embassy has begun working to arrange for fabrication of supplementary fuel tanks for its off-compound residences. Those supplementary tanks will significantly increase the reserves at each residence, increase the number of hours the generators can run without refueling, and extend the time between fuel deliveries.

IMPACT ON RESUPPLY FOR TROOPS IN AFGHANISTAN

¶11. (C) Forty percent of the fuel for ISAF forces in Afghanistan comes from Pakistan and is supplied through private contracts. On average 180,000 gallons of fuel is delivered from Pakistan on a daily basis via 18 fuel tankers crossing the Torkam border. The Embassy representative for the Defense Energy Support Center Middle East has checked with their two suppliers to verify the level of individual stocks in order to determine what impact these potentially low levels will have on ISAF refueling in Afghanistan. Each supplier reports that the refineries quotas for November and December will be fulfilled; however given the lack of public awareness on this issue it is unclear to what extent the refineries are willing to arouse concern among their clients.

IMPACT ON DOMESTIC ECONOMY

¶12. (SBU) Approximately 95 percent of the cars in Pakistan use compressed natural gas, however low crude reserve levels will impact the transit of goods, industrial manufacturing as well as the fuel used for generators across the country. Ahmed Shiekh Tarvir, President of the Federated Chambers of Commerce and Industry confirmed that industry is seeing a depletion in petroleum stocks which would impact Pakistan's overall industrial production.

¶13. (SBU) According to media reports, airlines including Pakistani International Airways (PIA) are also facing jet fuel shortages due to reduced production by oil refineries. According to one media report, Shell issued a warning letter to the Civil Aviation Authority advising them to make alternative arrangements for jet fuel due to potential depletion of Shell's stocks. The former CEO of PIA, Tariq Kirmani relayed to EconOff that Shell is reportedly stopping their supply of jet fuel to PIA due to the vast outstanding debt which is owed to Shell. PIA has extra flights on its upcoming schedule due to

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an increase in travelers going on the Haj in early December.

COMMENT

¶14. (S) The severity of Pakistan's fuel shortfall is simply unclear. Post has received information from a variety of sources and pieced together information which leads the Embassy to think that unless payment is soon made to the independent power producers the overall energy production in Pakistan will be reduced and thus the continuing blackouts will be more severe. Whether the USD 3 billion IMF money can be used for payment to the energy companies or will be parked in the State Bank of Pakistan to shore foreign reserves and the country's overall credit rating remains to be seen. Post will continue to monitor the situation and report further developments septel.

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